FDIC State Profile

SPRING 2003

Tennessee

Employment Conditions in Tennessee Remain Weak

- Labor market conditions in Tennessee remain weak with the pace of job losses increasing in fourth quarter 2002, following three consecutive quarters of decline. However, the rate of decline has slowed with 8,300 jobs lost in fourth quarter 2002, on a year-over-year basis, down from a high of almost 19,000 a year earlier (see **Chart 1**).
- Employment levels in Tennessee's manufacturing sector have fallen every year since 1995. The pace of manufacturing job losses surged in 2001 to 36,000, 42 percent higher than losses during the next highest year. However, the pace of losses slowed significantly in 2002. Virtually all areas of the states' manufacturing sector have experienced job losses. As of fourth quarter 2002, the state's share of manufacturing jobs as a percentage of total employment was 17 percent, compared with 13 percent for the nation.
- The prospects for improvement in the manufacturing sector are unclear. Recent surveys by the Institute for Supply Management indicate overall improvement is expected; however, the employment component of the survey suggests that the improvement will not be accompanied by job gains in the near term (see **Chart 2**).

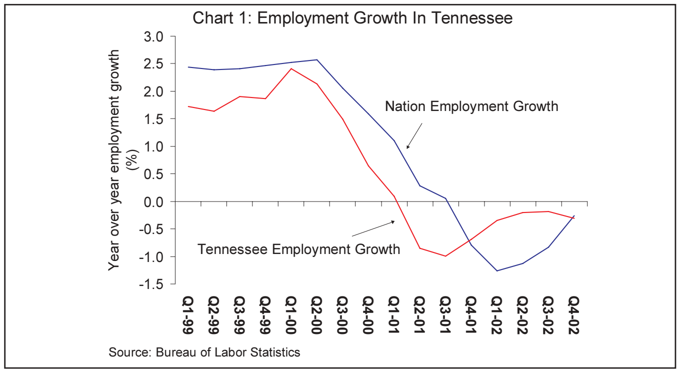


Chart 1: Employment Growth In Tennessee

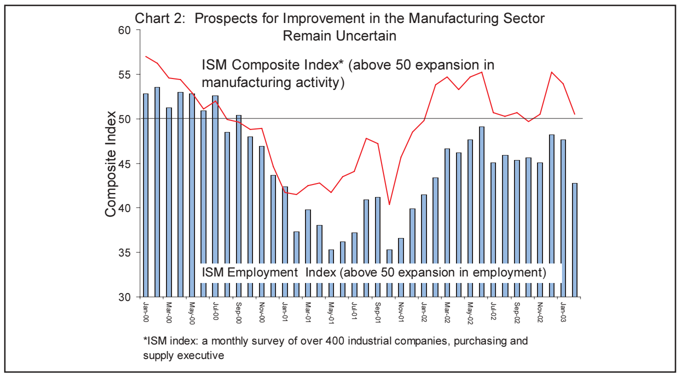


Chart 2: Prospects for Improvement in the Manufacturing Sector Remain Uncertain

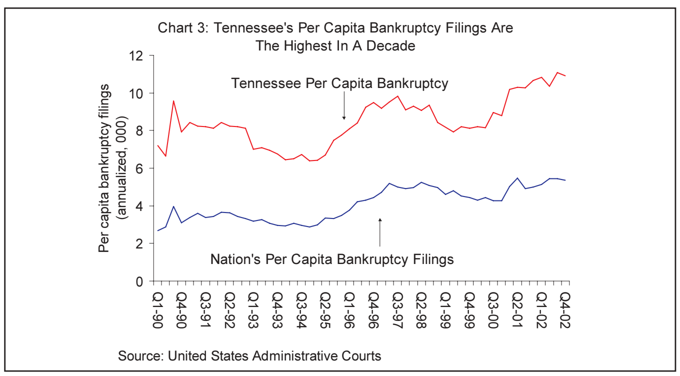


Chart 3: Tennessee's Per Capita Bankruptcy Filings Are The Highest In A Decade

Bankruptcy Filings Are Rising

- The state's slowing economy has contributed to a higher rate of bankruptcy filings (see **Chart 3**). Tennessee's ranked 4th in the nation in per capita bankruptcy filings as of third quarter 2002.

Other Factors That May Affect the State's Economy

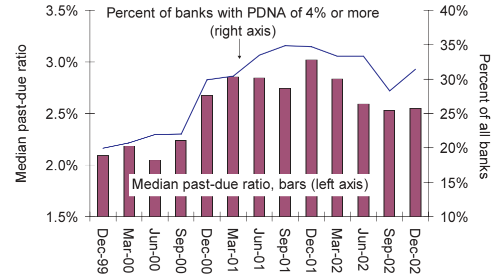
- Tennessee's economy benefited throughout the 1990s from a very strong positive flow of new residents. However, the economy has generated fewer jobs in 2001, slowing the influx of new residents to an eleven year low.
- The state's legislature raised sales taxes during the summer of 2002 in an effort to address rising budget shortfalls. However, as of March 2003 those efforts had not been sufficient to balance the budget, and the Governor was asking for cuts which may include reductions in state and local government employment levels.

Although Past-Due Loan Levels Declined, Credit Problems Remain

- Insured institutions headquartered in Tennessee reported deteriorating credit quality with higher past-due and nonaccrual loan levels and rising loan loss rates beginning in fourth quarter 2000. The apparent peak in median past due loan levels occurred one year later.[1]

- The reported median past-due ratio declined in fourth quarter 2002 from one year ago and remained virtually unchanged from the previous quarter. However, the number of insured institutions reporting past-dues of 4 percent or more increased at year-end from third quarter 2002[2] (see **Chart 4**). Past-due levels remain elevated in the consumer and agricultural loan categories while improvement has occurred in the commercial loan categories.[3]

Chart 4: Credit Problems Remain a Concern for Insured Institutions in Tennessee

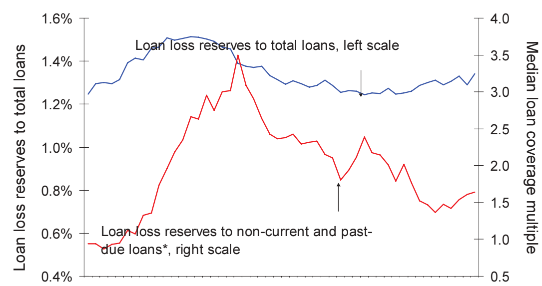


PDNA includes loans 30 days or more past-due and nonccural loans.
Source: Bank and Thrift Call Reports

Coverage Levels of Nonperforming Loans Increased At Year-end 2002 After A Steep Decline

- Insured institutions headquartered in Tennessee responded to rising delinquencies in 2001 by increasing provisions for loan loss reserves; this trend continued through 2002.[4]
- Median loan loss reserve coverage of past-due and noncurrent loans significantly declined during the 1990s from a high of 3.50 in second quarter 1995 to a low of 1.36 in third quarter 2001. However, coverage levels increased to 1.64 in fourth quarter 2002 (see **Chart 5**).

Chart 5: Coverage Levels Slightly Increased At Year-end 2002

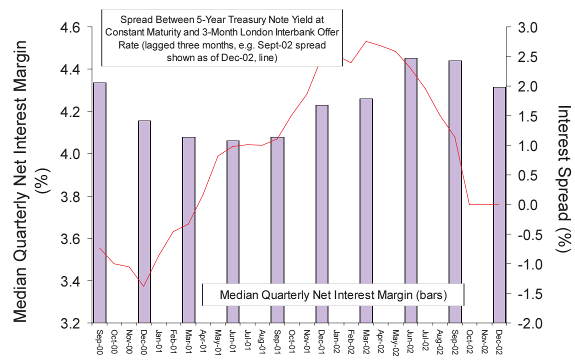


*Median multiple
Source: Bank and Thrift Call Reports

Favorable Interest Rates and Lower Provisions Boost Returns

- Median net interest margins for insured institutions headquartered in Tennessee reached 4.32 percent in fourth quarter 2002, up from 4.23 percent one year ago. The improvement is primarily attributed to the wide spread between short- and long-term interest rates (see **Chart 6**). However, short- and long-term interest rate spreads have actually narrowed, suggesting that net interest margins may began to fall.[5] The margin improvement occurred across various institutions types and sizes, as well as varied geographic locations.
- Median return on asset (ROA) levels rose to 1.09 percent in fourth quarter 2002 from 0.94 percent one year ago. Lower provisions for loan losses during 2002 also contributed to the improvement in ROAs.

Chart 6: Recent Narrowing of Spreads Could Pressure NIMs



Median Quarterly Net Interest Margin for all Insured Tennessee Institutions, excluding de novos.
Source: Federal Reserve Board: Bank & Thrift Call Reports

[1] Median past-due loans for established institutions (those in existence for at least three years) reached 3.02 percent in fourth quarter 2001. By comparison, during the recession of 1990/1991median past-due loans peaked at 4.08% in third quarter 1990.

[2] The median past-due ratio (PDNA) among established banks was 2.55 percent in fourth quarter 2002. Nearly one third of insured institutions reported a PDNA of 4 percent or more in fourth quarter 2002, up from 28.3 percent in third quarter 2002.

[3] Median past-due levels for consumer and residential mortgage loans remained near recent peaks in the fourth quarter 2002 at 4.04 and 3.23 percent respectively. In contrast, commercial and commercial real estate loans were well below recent peaks in fourth quarter 2002 at 1.75 and 2.78 percent respectively.

[4] Loan loss reserves were 1.34 percent of total loans as of December 31, 2002, up from 1.29 percent one year ago.

[5] Long-term net interest margins tend to react to changes in interest rate spreads by approximately 9 months.

Tennessee at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	212	215	218	227	233
Total Assets (in thousands)	112,471,171	92,927,764	91,998,321	118,078,099	103,112,329
New Institutions (# < 3 years)	16	24	18	21	17
New Institutions (# < 9 years)	44	48	39	35	31

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.27	9.18	9.39	9.41	9.51

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	2.55%	2.75%	2.24%	2.10%	2.55%
Past-Due and Nonaccrual ≥ 5%	39	52	29	21	38
ALLL/Total Loans (median %)	1.30%	1.30%	1.25%	1.25%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.74	1.42	2.14	2.26	1.85
Net Loan Losses/Loans (aggregate)	0.53%	0.45%	0.33%	0.34%	0.33%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	19	23	12	13	9
Percent Unprofitable	8.96%	10.70%	5.50%	5.73%	3.86%
Return on Assets (median %)	1.08	0.94	1.06	1.15	1.21
25th Percentile	0.73	0.60	0.74	0.83	0.91
Net Interest Margin (median %)	4.32%	4.07%	4.39%	4.39%	4.46%
Yield on Earning Assets (median)	6.91%	8.29%	8.62%	8.18%	8.55%
Cost of Funding Earning Assets (median)	2.55%	4.28%	4.23%	3.79%	4.07%
Provisions to Avg. Assets (median)	0.27%	0.23%	0.20%	0.22%	0.18%
Noninterest Income to Avg. Assets (median)	0.75%	0.79%	0.70%	0.68%	0.72%
Overhead to Avg. Assets (median)	3.09%	3.01%	2.99%	2.99%	2.96%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	78.93%	78.14%	80.27%	78.63%	76.33%
Loans to Assets (median %)	66.02%	66.00%	68.57%	66.60%	65.52%
Brokered Deposits (# of Institutions)	34	29	19	23	19
Bro. Deps./Assets (median for above inst.)	2.83%	2.92%	1.72%	1.29%	1.21%
Noncore Funding to Assets (median)	21.31%	20.83%	20.00%	18.46%	16.55%
Core Funding to Assets (median)	67.23%	67.16%	68.22%	69.97%	71.81%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	148	152	155	160	166
National	28	28	28	33	34
State Member	15	11	10	9	8
S&L	6	6	6	6	6
Savings Bank	14	17	18	18	18
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	132	18,401,349	62.26%	16.36%
Nashville TN	23	5,012,668	10.85%	4.46%
Memphis TN-AR-MS	23	81,071,719	10.85%	72.08%
Knoxville TN	12	3,773,123	5.66%	3.35%
Johnson City-Kingsport-Bristol TN-VA	10	2,246,061	4.72%	2.00%
Chattanooga TN-GA	5	922,284	2.36%	0.82%
Clarksville-Hopkinsville TN-KY	4	780,061	1.89%	0.69%
Jackson TS	3	263,906	1.42%	0.23%